

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

5 U.S.C. § 8909a(d)(5)(A) REQUEST

Docket No. SS2018-2

**REQUEST OF THE UNITED STATES POSTAL SERVICE FOR THE COMMISSION
TO CONDUCT A REVIEW OF THE OFFICE OF PERSONNEL MANAGEMENT'S
DETERMINATION REGARDING RETIREE HEALTH BENEFITS LIABILITY**

(January 30, 2018)

Pursuant to 5 U.S.C. § 8909a(d)(5)(A), the Postal Service requests that the Commission initiate a review of a determination made by the Office of Personnel Management (OPM) regarding the Postal Service's retiree health benefits (RHB) liability. On July 30, OPM invoiced the Postal Service for approximately \$3.3 billion in RHB normal costs under 5 U.S.C. § 8909a(d)(2)(A), as well as approximately \$1.0 billion for the RHB amortization payment under 5 U.S.C. § 8909a(d)(2)(B), both due September 30, 2017. A copy of OPM's determination is attached to this request.

Subparagraph (d)(5)(A) of 5 U.S.C. § 8909a contemplates that, upon receiving such a request from the Postal Service, the Commission will procure the services of an actuary to provide a report, which the Commission, after appropriate review and comment, will submit to the Postal Service, OPM, and Congress. OPM then will have the opportunity to reconsider its determination in light of the report.

The Postal Service believes that all stakeholders would benefit from Commission review of whether certain assumptions underlying OPM's determination are appropriate and consistent with the statute. In particular, the Commission should consider whether it is appropriate and consistent with the law for OPM to calculate these RHB liabilities on

the basis of government-wide assumptions, rather than those specific to Postal Service employees and annuitants.

The Postal Service has previously noted that the pension statutes require the use of available postal-specific assumptions to calculate the Postal Service's liabilities under the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), and that in any event it is actuarially appropriate for OPM to do so.¹ The FY2017 CSRS liability is a subject of a pending Commission docket.² OPM rules also now require and permit the use of various postal-specific assumptions in the CSRS and FERS pension funding calculations for future years.³

In prior fiscal years, because the Postal Service's RHB payment obligations were fixed by statute, it was unnecessary to consider whether postal-specific assumptions should be used with respect to the Postal Service's RHB liabilities. However, beginning with FY2017, and for each subsequent year, the Postal Service's RHB payment obligations will be calculated by OPM. Moreover, because those payment obligations are predicated on the estimated health benefits that will be paid for postal annuitants,⁴ it is logical from a policy perspective to consider postal-specific assumptions in calculating those obligations.

¹ See Letter from Thomas J. Marshall, General Counsel and Executive Vice President, United States Postal Service, to Roxann Johnson, Retirement Policy and Retirement Services, Office of Personnel Management (Feb. 21, 2017), at 3, *available at* <https://www.regulations.gov/document?D=OPM-2016-0019-0003>. See also Request of the United States Postal Service for Review of the Office of Personnel Management's Determination Regarding Civil Service Retirement System Liability, PRC Docket No. SS2018-1 (Nov. 13, 2017), at 2-3.

² Docket No. SS2018-1.

³ Federal Employees' Retirement System; Government Costs, 82 Fed. Reg. 49,277 (2017).

⁴ See 5 U.S.C. §§ 8906(g)(2)(A); 8909a(b).

A threshold question that the Commission will need to consider is whether the governing statute allows use of postal-specific RHB assumptions. Unlike the pension statutes, which accord broad discretion to OPM to set the assumptions used for actuarial funding purposes, paragraph (d)(4) of 5 U.S.C. § 8909a specifically mandates that OPM's calculation of the Postal Service's RHB obligations be "consistent with the assumptions and methodology used by [OPM] for financial reporting under subchapter II of chapter 35 of title 31." While this could require that the Postal Service's RHB liabilities be calculated using the same set of (government-wide) assumptions that OPM uses to report retiree health benefits liabilities in its financial reports, the Postal Service and other stakeholders would benefit from the Commission's perspective on that question.

The Commission has previously addressed the issue of postal-specific assumptions in determining the Postal Service's RHB liability.⁵ The Commission stated that, when the RHB fixed payment stream ended, "Congress may want to request a Postal Service specific valuation that reflects use of Postal Service demographics apart from the overall Federal government population to better determine actual costs for the Postal Service."⁶ The Postal Service's OIG has taken a similar position.⁷ However, the Commission specified that Congress take such action, so it is not apparent whether the Commission believes that the use of postal-specific assumptions is allowed under current law.

⁵ Postal Regulatory Comm'n, Review of Retiree Health Benefit Fund Liability as Calculated by the Office of Personnel Management and U.S. Postal Service Office of Inspector General (July 30, 2009), at 4, 26.

⁶ *Id.* at 4; *see also id.* at 26, 28.

⁷ Office of the Inspector Gen. of the U.S. Postal Serv., No. FT-AR-17-007, Update for Measuring Pension and Retiree Health Benefits Liabilities (May 2, 2017), at 15.

For all of these reasons, the Postal Service respectfully requests that the Commission initiate the procedures set forth in 5 U.S.C. § 8909a(d)(5)(A) to assess whether it is appropriate and consistent with the statute for OPM to determine RHB liabilities using postal-specific assumptions, and, based on that determination, whether OPM should redetermine the most recent liability determination through the use of such assumptions. The Commission is already in the process of procuring the services of an actuary to provide a report concerning the FY2017 CSRS liability that is the subject of Docket No. SS2018-1, and it is possible the Commission resources could be conserved by utilizing the same actuary for purposes of this inquiry. In addition, if the Commission believes that any further information from the Postal Service would be useful, the Postal Service will be happy to provide any information that is at its disposal.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

JUL 30 2017

Chief Financial
Officer

Joseph Corbett
Chief Financial Officer
Executive Vice President
United States Postal Service
475 L'Enfant Plaza SW – Room 8021
Washington, DC 20260-8021

Dear Mr. Corbett:

OPM is required by statute to compute by June 30, 2017, the net present value of the future payments required under section 8906(g)(2)(A) and attributable to the service of Postal Service employees during the most recently ended fiscal year. Statute also requires that OPM determines, by June 30, 2017, the amount of the U.S. Postal Service (USPS) unfunded liability for Federal Employees Health Benefits (FEHB) as of September 30, 2016. The unfunded liability is required to be amortized with initial payment by September 30, 2017, to provide for liquidation of the liability by September 30, 2056. The USPS is required to pay the amounts determined by OPM to the Postal Service Retiree Health Benefits Fund (PSRHBF) no later than September 30, 2017.

OPM has determined the amount payable by USPS to the PSRHBF by September 30, 2017, to be \$4,260,220,815. This amount consists of the participant normal cost (\$3,305,154,944) and the amortization of the unfunded liabilities (\$955,065,871), which are due and payable by September 30, 2017.

The actuarial liabilities are determined consistent with the assumptions and methodology used by the Office for financial reporting under subchapter II of chapter 35 of title 31. These include demographic assumptions and economic assumptions that have been revised from the previous valuation. The long term economic assumptions are: a single equivalent discount rate of 3.7% derived from a yield curve based on the average of the last 40 quarters through March 2017, and a variable trend that begins at 4.9% decreasing to an ultimate rate of 3.4%.

The \$3,305,154,944 net present value of the future payments required under section 8906(g)(2)(A) and attributable to the service of Postal Service employees during the most recently ended fiscal year is calculated by multiplying the Per participant Normal Cost of \$7,696 by 429,464 total Postal Active Participants.

The FEHB unfunded liability of \$19.8 billion as of September 30, 2016, results in the establishment of a schedule of 40 equal annual payments of \$955,065,871 beginning on September 30, 2017, as amortized at the valuation interest rate of 3.7%. The FEHB unfunded liability of \$19.8 billion as of September 30, 2016 was calculated as follows.

| (dollars in billions) | |
|-------------------------------------|---------------|
| P.V. USPS Share of Future Benefits: | \$148.7 |
| - P.V. Future Normal Payments: | \$39.9 |
| Accrued Liability: | \$108.8 |
| - Value of Invested PSRHBF Assets: | \$51.9 |
| - Past Due Payments | \$33.9 |
| - 9/30/2016 Normal Payment | \$3.3 |
| <u>Unfunded Liability:</u> | <u>\$19.8</u> |

USPS is required to pay \$4,260,220,815 to the PSRHBFB no later than September 30, 2017. In addition, USPS is required to pay \$33.9 Billion to the PSRHBFB for amounts past due from previous fiscal years.

Any questions regarding these matters should be directed to Tonya Johnson, Associate Chief Financial Officer, Financial Services, (202) 606-1531.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis D. Coleman", with a stylized flourish at the end.

Dennis D. Coleman
Chief Financial Officer